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**THE LINK ON SERVICE CHARACTERISTICS,
CUSTOMER SATISFACTION AND COMPETITIVE
STRATEGY AMONG RETAIL CHAIN STORES IN
KUALA LUMPUR**



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UUM
Universiti Utara Malaysia

MASTER OF SCIENCE (MANAGEMENT)

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AND COMPETITIVE STRATEGY AMONG RETAIL CHAIN STORES IN
KUALA LUMPUR**

By

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UUM
Universiti Utara Malaysia

**Thesis Submitted to
School of Business Management,
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In Partial Fulfillment of the Requirements for the Master of Science (Management)**



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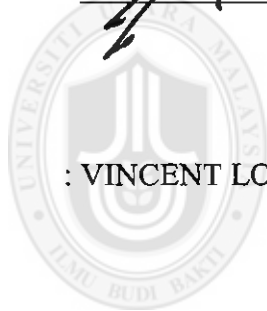


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ABSTRACT

The main purpose of this study was to examine the different on customer perception of service quality, servicescape, perceived value and customer satisfaction among the retail chain stores that pursuing a cost leadership strategy and differentiation strategy. The relationship between service quality, servicescape, perceived value and customer satisfaction among retail chain stores were also studied in this research. This study was conducted in Kuala Lumpur. The sample of this study consisted of 405 customers from Tesco, Giant, Mydin, Isetan, Sam's Groceria and Ben's Independent Grocer in Kuala Lumpur. Data were collected through questionnaire survey. Data were analyzed by using various statistical techniques such as reliability analysis, descriptive analysis, Independent Samples Test and Multiple Regression Analysis. The Independent Samples Test results showed that the customer perceptions of service quality and servicescape was lower, but higher in perceived value for the firms that pursuing a cost leadership strategy than differentiation strategy. However, the customer perceptions of satisfaction was consistent across both strategies. For the regression results, the study revealed that all the independent variables (i.e., service quality, servicescape, perceived value) were positively correlated with the dependent variable (i, e., customer satisfaction). This research provided relevant information regarding the competitive strategy towards the service characteristics and customers satisfaction. Thus, this research could contribute to theoretical and practical implication, it is very useful for the retail chain stores to enhance the business performance by improving the service characteristics and customer satisfaction which must be aligned with the business strategy.

Keywords : *Service Quality, Servicescape, Perceived Value, Customer Satisfaction, Cost Leadership Strategy, Differentiation Strategy*

ABSTRAK

Objektif utama kajian ini adalah untuk mengkaji perbezaan persepsi pelanggan terhadap kualiti perkhidmatan, *servicescape*, nilai tanggapan dan kepuasan pelanggan di kalangan rangkaian peruncitan yang menggunakan strategi kepimpinan kos dan strategi perbezaan. Hubungan antara kualiti perkhidmatan, *servicescape*, nilai tanggapan dan kepuasan pelanggan di kalangan rangkaian peruncitan juga telah dikaji dalam kajian ini. Kajian ini telah dijalankan di Kuala Lumpur. Sampel kajian ini terdiri daripada 405 orang pelanggan dari Tesco, Giant, Mydin, Isetan, Sam's Groceria dan Ben's Independent Grocer di Kuala Lumpur. Data dikumpulkan melalui soal selidik. Data dianalisis dengan menggunakan beberapa ujian statistik seperti analisis kebolehpercayaan, analisis deskriptif, Ujian T-Sampel Bebas dan Analisis Regresi. Keputusan Ujian T-Sampel Bebas menunjukkan bahawa persepsi pelanggan tentang kualiti perkhidmatan dan *servicescape* adalah lebih rendah, tetapi lebih tinggi bagi nilai tanggapan untuk firma yang menggunakan strategi kepimpinan kos berbanding dengan strategi perbezaan. Walau bagaimanapun, persepsi pelanggan terhadap kepuasan adalah konsisten bagi kedua-dua strategi tersebut. Bagi keputusan analisis regresi, kajian membuktikan bahawa semua pembolehubah bebas (kualiti perkhidmatan, *servicescape*, nilai tanggapan) mempunyai hubungan positif dengan pembolehubah bersandar (kepuasan pelanggan). Kajian ini memberikan maklumat yang relevan mengenai strategi persaingan terhadap ciri-ciri perkhidmatan dan kepuasan pelanggan. Oleh itu, kajian ini boleh menyumbang kepada implikasi teori dan praktikal serta sangat bermanfaat kepada rangkaian peruncitan untuk meningkatkan prestasi perniagaan dengan menambah baik ciri-ciri perkhidmatan dan kepuasan pelanggan selaras dengan strategi perniagaan.

Kata Kunci : *Kualiti Perkhidmatan, Servicescape, Nilai Tanggapan, Kepuasan Pelanggan, Strategi Kepimpinan Kos, Strategi Perbezaan*

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LIST OF ABBREVIATIONS

SPSS	Statistical Package for Social Sciences
UUM	Universiti Utara Malaysia



CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Nowadays, the retail chain industry is growing rapidly in Malaysia and stores are all jostling in different areas no matter in cities and towns. The hypermarkets and supermarkets outlets in Malaysia was 296 outlets in years 2012, (Hassan & Rahman, 2012), increased to 323 outlets in years 2013 and the hypermarkets and supermarkets outlet was expected to increase continuously. Due to high rivalry among the competitors, the retail chain stores have to come out with different business strategy, innovative, service quality control and price competition in order to meet the customer expectation and fulfil customer satisfaction. Besides these, the retail chain stores also seek the innovative retail experiences and provide special and unique services to differentiate themselves in the market.

Retail chain stores for hypermarket is a modern household retailing concept that provide variety of products by different store departments and wide assortment of groceries (Malaysian Magazines, 2003). According to Swoboda, Haelsig, Morschett and Schramm-Klein (2007), a hypermarket focuses on self-service based. Hypermarkets fulfil customers' wants and needs by selling most products such as fast moving consumer goods and the basic household essentials like groceries, cleaning supplies, kitchen necessities, and others. There are several departments that provide durable goods. For example, we can purchase more varieties for fashion category, electrical products, homes appliances goods, stationaries, toys and baby products. Therefore, the hypermarkets can be known as a modern retailing concept that sell everything under one roof.

Consumers always have several preference of retail stores to purchase for the grocery shopping (McGoldrick & Andre, 1997). Malaysia customers always seek for price promotion or discount and wider assortment for major purchases in bigger retailers. The retail chain stores always seek the ways to increase the customers' satisfaction and loyalty by selling good quality products in competitive price, provide better shopping environment and introduce retail loyalty programme. According to Marketing Magazine (2016), there is about one in two Malaysian customers are joining the loyalty programme between two to five retail stores (53 percent). While the global average for customers that holding two to five retail stores loyalty member card is 42 percent. So this statistic shows that Malaysia consumers prefer to purchase groceries and necessities in retail chain outlet which are come out with an innovative ways to satisfy the customers.

Nowadays the retail chain stores also somewhat aware that the price is important but it is not everything in the customers' mind in Malaysia. The service quality provided by the retail chain stores also is a core element in increasing the customer satisfaction. The quality is designed to leave a good impression to the consumer in terms of the knowledge, skills and reliability of service provided. The service characteristics can be measured by service quality, servicescape and perceived value.

The retail chain outlets have their own business strategy in order to maintain and fulfil the customer satisfaction. Porter's generic strategies suggest that the organization's strategy towards the importance of different aspects of service quality. Each of the retail chain outlets has their own strategy to differentiate their position among all the competitors to attract and retain the customers. Some of the retail chain stores are using differentiation strategy that focus on the service innovation like Isetan, Jaya Grocer and Sam's Groceria.

These kind of retail chain stores mostly provided premium and high quality imported groceries from overseas with well-known brands. For example, Isetan provided famous Japanese crown melon, Japanese tea, beer, wine spirits, Japanese bakery and sweets. Besides the premium products, the environment of the retail chain store is also exclusive and exceptional. The customers feel that the retail chain store is providing very premium services and environment when entering into the stores.

In contrast, some of the retail chain stores will adopt cost leadership strategy to maintain their business to seek the competitive advantage by providing lowest cost products to attract and retain the customer's satisfaction. The retail chain stores that adopt this strategy included Giant, Tesco and Mydin which are selling the low cost products to the consumers in Malaysia. For example, Giant retail chain stores in Malaysia operate their business with slogan "Everyday Low Price" by providing fresh groceries which supply from local companies and the products with affordable prices to their consumers.

As per today, there are hundreds of retail chain stores in Malaysia that are selling groceries to Malaysians. The competitive level is very high in this industry and to remain in this sector can be considered demanding.

1.2 Problem Statement

The retail chain stores have been increased in Malaysia year by year and the number of retail chain stores are more than three hundred outlets. The service quality will not always can retain the customer's satisfaction and loyalty to the retail chain stores. There are many external and internal factors that may affect customer satisfaction. Therefore,

there is a gap for the researcher to study on how the adopted business strategy influence customers' satisfaction. The competitive level in this industry is very extreme and each of the retail chain stores management have their own strategy to maintain the operations and continue survive in the industry (Miles, 2013).

According to Marketing Magazine (2016), many Malaysian consumers has claimed that the retailers do not really understand on the customer's needs and wants. There are only about 40 percent of the respondents agreed that the grocery retailer has communicates and delivers to them in a relevant and correct way. The rest of the respondents are not think that the retailers are fully understand the customers' need and wants. So these issues may cause the dissatisfaction of the consumers and they will search for other stores that the customers feel more comfortable to purchase their needs and wants.

Nowadays, the perspective of Malaysian customer might be changed due to the influence of education level and wealthiest level (Marketing Magazine, 2016). The price is important to customers but it is not everything like previously in the customers' mindset. The customers also seek for the others aspect like the service characteristics that might be also can increase the level of satisfaction of the customers.

According to Miles (2013), the service characteristics which included service quality, servicescape and perceived value is very important in order to retain or increase the satisfaction of the customer. If the expectation of the customers are met, then they will be satisfied. Otherwise, if the expectation is failed to meet, this will lead to dissatisfied (Piccoli & O'Connor, 2013). Hence, this is a very big challenge for the retail chain stores to differentiate them from the ideal category type in order to compete with a huge number of competitors.

There are several previous researches have been studied on how the service characteristics affect the customer satisfaction in overall, but lack evident proved the differentiation between the company who implement differentiation and cost leadership strategy. Therefore, there is a need to study on the relationship between service characteristics and customer satisfaction by following a cost leadership strategy or differentiation strategy.

1.3 Research Question

The research questions as follows:

- i. Is there a positive significant different on customer perception of service quality, servicescape, perceived value and customer satisfaction among retail stores that pursuing a cost leadership strategy and differentiation strategy in Kuala Lumpur?
- ii. Is there a positive significant relationship between service quality, servicescape, perceived value and customer satisfaction among retail stores that pursuing a cost leadership strategy and differentiation strategy in Kuala Lumpur?

1.4 Research Objective

This research utilizes Porter's generic strategy which are cost leadership and differentiation strategy to suggest customers. The details of research objectives as below:

- i. To examine whether there is a positive significant different on customer perception of service quality, servicescape, perceived value and customer satisfaction among

retail stores that pursuing a cost leadership strategy and differentiation strategy in Kuala Lumpur.

- ii. To examine whether there is a positive significant relationship between service quality, servicescape, perceived value and customer satisfaction among retail stores that pursuing a cost leadership strategy and differentiation strategy in Kuala Lumpur.

1.5 Scope of the Study

In this research, the respondents were the existing customers from the retail chain stores in Kuala Lumpur who at least visited the stores more than once in a month. The retail stores were then categorized into cost leadership strategy group and differentiation strategy group. Due to the characteristics of stores and strategies, Tesco, Giant, Mydin, Isetan, Sam's Groceria and Ben's Independent Grocer retail stores were chosen in this study. Tesco, Giant, Mydin were the retail chain stores as the adoption of cost leadership strategy, while Isetan, Sam's Groceria and Ben's Independent Grocer were categorized for the adoption of differentiation strategy.

Tesco, Giant and Mydin are supermarkets that offered product in lowest cost compared to others and has eleven stores in Kuala Lumpur. Isetan is a Japanese Store that offered premium and branded product to the customer. There are three stores in Kuala Lumpur which are located in Lot 10, KLCC and The Gardens Mall. Sam's Groceria and Ben's Independent Grocer are premium markets that are selling branded and imported

product which is located in Publika, Damansara and NU Sentral. Those supermarkets and stores are well-known in Malaysia.

This research studied on the service characteristics which included service quality, servicescape and perceived value that provided by the retail chain stores to affect the level of customer satisfaction in Kuala Lumpur. Thus, the respondents were the customers of those supermarkets and stores in Kuala Lumpur.

1.6 Significance of the Study

This research indicates some significance to theory and also useful in order to improve the performance of the retail chain industry in Malaysia. This research is to study on the knowledge that gained by the previous research and make us clear and understand that the relationship between the service characteristics and customer satisfaction that established in the previous research studies. It was necessary for us to understand how customers received the service that provided by the retail chain stores that might affect the customer satisfaction.

In an organizational service quality model theory, many researchers and scholars has concluded that the service characteristics and customer satisfaction are highly interconnected concepts. Although the relationship between the service characteristics and customer satisfaction has widely studied, there are several researchers have argued that this is mainly caused by the different explanations on the theories meanings or definitions, disconfirmation figures and significance of service characteristics in several firm settings (Brady & Cronin, 2010; Gronroos, 2007; Parasuraman, Berry & Zeithaml, 1990).

The previous studied focused on how the service characteristic affect the customer satisfaction. However, Porter's generic strategy influenced the operations decisions as well, and then the service characteristics and the influence of these on the organizational level results. When a retail chain stores considers a differentiation strategy, the retail chain stores must know the desired service characteristics that can determine the customers' perception of quality. Otherwise, when a retail chain store is adapted cost leadership strategy, the retail chain store must know the customers is seeking for value rather than the uniqueness (Kuo, Wu & Deng, 2009).

In order to fill the existing gap within the literature, the purpose of this study is to explain the service characteristics might be aligned with customer satisfaction in different strategic group. The result will help the researchers have a clearer and completed understanding on the service characteristics that are most likely to lead to retail business.

This research useful to present several practical significances. This study showed that the competitive strategy towards the service characteristics and customer satisfaction. This can help the retail chain stores to manage their strategies and build or choose the most suitable competitive strategy to improve the service characteristics that might satisfy the customers. In order to achieve the best competitive strategy, the retail chain stores should fully understand the needs and wants of the local customers.

Thus, the retail chain stores should adapt cost leadership strategies if their customers are seeking for the value rather than the uniqueness. So the retail chain stores have to gain competitive advantage by being lowest cost retailer within the industry. This always consists of rigorous pursuit of cost reductions, efficient scale facilities and tight control on the financial budgeting such as minimize the cost on service and advertising.

This strategy gained returns because the price is the lowest within the industry will attract more customers that seek for the value and this still can obtain profits. The retail chain stores also can try in different ways to reach the lowest price within the industry by purchase in bulk to achieve economies of scale, standardize the service settings and enhance efficiency of the retail chain stores.

Besides that, for the retail chain stores that adapt the differentiation strategy must try to create unique service compare to the competitors in the industry to the customers. The retail chain stores must know that value is not restricted to the price only but also others dimensions. This can be accomplished through the environment and atmosphere, technology, brand reputation and others unique features that might attract the customers. This strategy can lead to a bigger sales margin due to the customers are willing to pay for the uniqueness.

Therefore, this research provide several ideas to the retail chain stores to offer added value benefits based on the competitive strategy that adapted which can strengthen and sustain their position in the industry.

1.7 Definition of Key Terms

These are the definitions of the key terms used in this study.

i. Customer satisfaction

“Satisfaction is a decision made after experience while quality is not the same.

Satisfaction is the customer’s fulfilment response. It is judgment that a product or service feature, or the product or service itself, provided (or is providing) a

pleasurable level of consumption-related fulfilment, including levels of under-or over fulfilment” (Parasuraman, Zeithaml & Berry, 1994, p. 193-194)

ii. Service quality

“Service quality is an important ingredient in quality management, marketing and organizational studies. It is viewed as an abstract and elusive concepts because it involves three unique features: intangibility, heterogeneity and inseparability of production and consumption” (Parasuraman, Zeithaml & Berry, 1994, p. 201-230)

iii. Servicescape

“The servicescape is defined as the atmospherics, or physical design and décor elements, on consumers and workers is recognized as important to customer perceptions of quality” (Bitner, 1992).

iv. Perceived Value

“Value is an abstract concept with meaning that varies according to context. In economics, value is equated with utility or desirability, while in social sciences it is more likely to be understood in the context of human values such as the instrumental and terminal values” (Patterson & Spreng, 1997)

v. Cost leadership strategy

“The cost leadership strategy is to gain the competitive advantage through the lowest cost of a product or service. The company is being the leader in terms of value or cost in the industry” (Porter, 1980).

vi. Differentiation strategy

“The differentiation strategy consists of the creation of unique products for different segments. The products are branded and advertised in different level of function, allows a firm to desensitize prices, and on the basis of being uniqueness, in order to offer higher cost to the customers” (Porter, 1980).

1.8 Organization of the Chapter

Chapter one has discussed about the introduction about the research problems that initiate this study. It included the background of the study, problem statement, research objectives, research questions, scope of the study, significance of the study and definition of key terms. Chapter two discussed on the past studies and literatures that are relevant to this topic. It included the review of related literature that justifies the selection variables of the study.

Then followed by implication to present study and underpinning theory Chapter three showed the theoretical framework that consist of independent variables and dependent variable. Then followed by the discussion of the hypothesis in the research, research design, operational definition, measurements of instruments, population and sampling, data collection procedure and technique of data analysis. Chapter four discussed the result of the data analysis stage and findings after the data were collected and analyzed using SPSS. Chapter five consists discussions of findings, implication of the study, limitation of study, recommendations for further research and ends with the conclusion.

1.9 Summary

This chapter introduced about the research conducted. The background of study, problem statement, research objectives and questions had been identified for a clearly direction for the process of research conduction. Scope of study, significance of the study and definition also covered in this chapter.



CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The literature review in this chapter provided the foundation of the topic of competitive strategy towards the relationship between service quality and customer satisfaction. This second chapter main objective is concerned on the analysis of present and past literature and writing on service characteristics that provided by the service provider that lead to the customer satisfaction. A brief discussion regarding service quality, servicescape and perceived value are discussed in this chapter.

2.2 Retail Stores in Malaysia

As compared to other developed countries, the appearance of retail chain store in Malaysia is considered as relatively new since the first retail chain store was introduced in year 1963. The first retail chain store was Weld Supermarket in Kuala Lumpur in year 1963 and this has increased the number of expatriates in Kuala Lumpur (Mc Taggart, 1969). Nowadays, most of the Malaysians have look at retail chain stores as a more modern approach to retailing. The retail chain stores industry has growth bigger and bigger to fulfil the needs of the consumers in Malaysia.

The rivalry competition in this industry has led to an improvement in efficiency (Barros, 2006). The huge retail chain stores like Aeon and Tesco have made a compelling

improvements to gain a competitive advantage in Malaysia since year 2006 (Business Monitor International, 2007). Shopping was not only consume the product from the stores, it also involved the impression to the customers (Beldona & Wysong, 2007; Brun & Castelli, 2008). The impression was very important and could lead to customer satisfaction. While past research studied on cost minimization, the current marketing research now is moving to branding and the experience of the customer (Parment, 2008). Moving forward, the retail chain store industry in Malaysia continuously growing with more inventive ideas.

The retail chain stores have their own business strategy in order to maintain and fulfil the customer satisfaction. Porter's generic strategies suggested that the organization's strategy towards the importance of different aspects of service quality. Some of the retail chain stores are using differentiation strategy that focus on the service innovation like Isetan, Ben's Independent Grocer and Sam's Groceria. These retail stores provided most exported and premium brand from oversea countries. While some of the retail chain stores used the cost leadership strategy to attract the customers by providing low cost product within the market. These stores including Giant, Tesco and Mydin which considered as the huge hypermarkets in Malaysia that provide low cost product to the customers. For instance, Mydin's slogan "Why pay more? Buy at wholesaler price" which mean the products that offered at the retail stores are cheaper compared to the competitor.

2.3 Business strategy

A firm's position in the industry is depends on how strong is the financial position on itself. The financial position is based on the firm's revenue or profitability. In order to

improve the profitability, it is very important for the firms to seek for competitive advantage. There are two basic competitive strategies that the firm should implement in gaining competitive advantage; which either cost leadership strategy or differentiation strategy.

2.3.1 Cost Leadership Strategy

Cost leadership is one of the generic strategies that have introduced by Michael Porter (1985). Cost leadership strategy is defined as one firm has offered a lower price to the customers compared to the price that offered by the competitors on the similar goods or services. By adapting this strategy, the firm will become an effective price leader in the industry and can operate more efficiently. Cost leadership strategy could make the firm become success in the industry by undercutting the benefits and profitability of the rivalry. Thus, firm should seek alternative to reduce the operation cost so that can reduce the selling price.

Nowadays, there are a lot of ideas and innovations can be adapted in a firm such as application of computer technology and communication and efficient operation process. All of these ways able to reduce the cost of a firm and also increase the effectiveness and efficiency of the firm. The firm should hired professional or expert to provide idea on the cost saving of the firm.

According to Thompson and Martin (2005), the firm must be able to maintain low cost all the time so that able to sustain in the industry for those adapt cost leadership strategy. When the firm able to offer lowest price among the competitors in the industry,

the cost leader position will bring higher returns (Wit & Meyer, 2002). This means that a firm should not only use this strategy as a competitive advantage to achieve the lowest cost in the industry, but also make innovation and development on the product or service that offered so that the product or service will be more value added to support the cost leadership strategy as well so that it can maximize the customer satisfaction level.

Furthermore, a firm with cost leader position can enable to serve the customer in more segments with a broad scope in other related industry. Cost leadership strategy can be achieved in many ways by a firm so that it could provide the lowest price to the customers. The firm can purchase the raw material in economics of scale, using suitable technology for operation, having partnership with the suppliers and others. The ability of the firm to compete low price in the industry would able to gain competitive advantage to the firm (Wit & Meyer, 2004). The cost leader must be able to compete with the competitors by providing the lowest cost to satisfy the customers.

However, the customer of the firm that adapt or using cost leadership strategy must willing to accept a lower degree of differentiation (Gait, 1994). Otherwise, this strategy is not suitable to adapt as generic strategy. The firms have to ensure that this strategy is suitable to adapt in their business model so that the customers are willing to do the business transaction with the firms. So the firms have to fully understand on the needs and wants of their focus customer group. By this way, the firm will be successful to adapt this strategy as cost leader in the industry.

Cost leadership strategy firm might produce low cost product or service in the certain industry for a given level of quality (Thompson & Strickland, 2008). The customer of the firm can accept the level of quality for the product or service provided, then the

strategy is useful to the firm to compete to the competitors. This is because in some industry, the customers are seeking for a lower price for the product or service but not the uniqueness of the product or service. The price or cost of the product or service offered is the priority concerned of the customers. So the firm should always understand their customer group needs and wants.

2.3.2 Differentiation Strategy

Differentiation is the revision or alteration of a product or service provide so that it can be difference with other competitors in order to attract more target customer in the industry. The modification can be done either in minor or major way. For product, the firm can modify the label or the packaging so that look more attractive in the market while for service, the firm could provide some services that are not being offered by the competitors so that the customers are feeling more convenience and comfortable.

The main intention of the differentiation strategy is to make changes to the product or service so that the product or service offered look special or unique in the customer's eye. The firm have more adaptability to establish marketing mix in the business when the product or service offered is unique compared to others. The outstanding differentiation strategy can develop the product or service which can difference with the competitors in terms of the characteristic of the product or service, marketing strategy or trading strategy (Bennet, 2002). Differentiation strategy includes how the firm discriminate the product or service to make them different in the industry and customer's eye.

Differentiation strategy can be adapted by several options such as through the brand, the atmosphere of the environment, technology used and the marketing variables. In a simple word, the differentiation strategy can be categorized in three classes. At first, the firm should target the development directly in terms of product or service characteristics such as the added value of the function in the product, design and packaging. In second category, the firm focus on the relationship between the firm and the target customer such as through the customer service provided, the technology used and customer orientation strategy. While the last category, the firm can focus on the linkage between the organizations, functional department in the organization, marketing mix and supply chain channels that provided.

In addition, the firm can differentiate itself with the competitors in terms of a few elements (Porter, 1980). Indeed, the differentiation strategy is the extremely creative and innovative alternative for an organization. The organization is able to gain more competitive advantage or benefits than others by creating something different or unique (Barney & Hesterley, 2006).

In long term plan, the organizational strategy for marketing, branding and repositioning can be more impressive if the firm can provide several appreciable benefits to the customer. This is conspicuous in the retail chain store industry, where the supermarkets are offering many of look-alike product for almost the same price. Unless a supermarket can extend the quality of the product or service offered beyond the core service with added value or special feature in it and this can increase customer satisfaction (Chang, Chan and Leck 1997). Thus, the best way to improve the business performance and retain

the customer is to adapt the strategy by added extra and special value in the product or service while this can raise the margins to sell in higher prices.

Moreover, the target of implementing this strategy is to gain the competitive advantage in order to compete with the others in the industry. A differentiation strategy can be focused in two dimension which is in customer dimension, the firm have to clearly understand the needs and wants of the customer; in competitor dimension, the firm has to clearly identify and understand the direct competitors and indirect competitors in the industry (Hitt, Ireland & Hoskisson, 2009). The strategy was to assume that the target customers are willing to pay more in terms of monetary to get the product or service in several influential ways. Differentiation strategy able to extend the business life cycle by selling in a higher price to gain more profits. Therefore, the firm that adapted differentiation strategy should be more innovative and creative to develop an unique and special product which can fulfil the needs and wants of the customers.

2.4 Customer Satisfaction as Dependent Variable

Customer satisfaction is considered as one of the most important measurement for the most retailer in terms of practical overview as well as for the researchers and academicians in terms of theoretical overview (Caruana, 2004). Customer satisfaction is measured by the degree the customers has perceived the value of the products or services that are worth than the cost that the customers have paid (Jamal, 2004).

In addition, customer satisfaction is part of the monitoring tool for the marketers and retailers which derived from the behavior of the customer after they obtained

experienced with the firm. The scenario of customer satisfaction can be depicted from the reducing percentage in customer complaint, repurchasing of the products or services (Tracey, 1996) and positive comments from customers (Yoo & Park 2007). The way to offer the products and services to fulfil the customers' wants and needs could lead to the satisfaction of the customers (Stefanou & Sarmaniotis, 2003).

Furthermore, when the expectations of the customers are met, then they will be satisfied. Otherwise, when the customers' expectation is failed to meet, then this will cause dissatisfied (Piccoli & O'Connor, 2003). The fulfilment of customer expectations is an important element lead to customer satisfaction (Kotler, 2000). Hence, the main concerned of most business is to improve the services provided by adapting a suitable strategy to maximize the satisfaction level of the customer.

The concept of customer satisfaction in marketing field was introduced by Cardoza (1965). Then, there are a lot of researches started to study in this concept. Customer satisfaction is a main issue for the firm in the world that could generate a competitive strategy in the rivalry of industry (Cengiz, 2010). Once the firm is able to maximize the level of customer satisfaction, the customer willing to increase the volume of purchasing and recommend to others. Therefore, there is probably no other concept in marketing that is more powerful and fundamental than customer satisfaction in the three decades ago (Czepiel & Rosenberg, 1977). Most of the organization seek for more creative and innovative ideas to improve the quality of the service provided always so that the firm able to satisfy the customer.

Customer satisfaction has always related to loyalty as customer behavioral intentions. According to Wiele, Boselie and Hesselink (2002), satisfaction of the customer

is a positive response that affect the relationship among each other from the all the aspects that provided by the organization. Customer satisfaction was an attention from the academicians and practitioners since long time ago and this response is one of the important source for the organization to gain revenue or profit. Therefore, customer satisfaction was an overall evaluation of the performance to measure the service that offer to the customer for most of the organizations to compete and sustain in the rivalry industry.

Nowadays, the firms have to be creative and innovative to generate more ideas and alternative to improve the service provided to satisfy the customers in the rivalry competition. Customer satisfaction was a very popular topic and always can get attention from the researchers and practitioners as well. Customer satisfaction was an important measurements that have been using by the firms to identify the customer's experience to the firms and also can increase the performance of the organizations.

The importance of customer satisfaction cannot be ignored as the customer is a free advertising of a business (Kotler & Philip, 2012). When the customer is satisfied then they will promote the good things about the firm, otherwise when the customer is dissatisfied, then the negative comment from the customer's mouth can destroy the image of the firm. Satisfaction is one's feeling of delight or disappointment that are caused from the comparison between the customer expectation and the outcome that have perceived by the customer (Mohsan, Nawaz, Khan, Shaukat & Aslam, 2011). Based on the statement above, customer satisfaction is an evaluation of the customer after they have perceived the products or services. Hence, the service characteristics provided by the retail chain store is very important in order to fulfil the customer wants and needs. The service characteristics that provided by the firm could influenced the level of customer satisfaction. According to

Miles (2013), the service quality, servicescape and perceived value are the significant features contributes to customer satisfaction.

2.5 Service Characteristics as Independent Variables

The firm has to understand how the customers to perceive the service quality as service is intangible. The research in this area study on the customer satisfaction able to be influenced by the service that provided by the firms (Ravald & Gronroos, 1996; Gronroos, 1984). Hence, those firms adapted differentiation strategy must understand the service characteristics that expected by the customers; those firms adapted cost leadership strategy should understand the customer expected on the price more than the uniqueness (Kuo, Wu & Deng, 2009). Service characteristics which are service quality, servicescape and perceived value are very important to influence the level of customer satisfaction (Miles, 2003).

2.5.1 Service Quality

From the aspect of service quality, the customer able to know the employee skill and knowledge from the service provider. The ability of the organization to provide a desirable service quality is very important lead to customer satisfaction. The customers usually expected the service provider to provide an excellent and reliable service (Parasuraman, Zeithaml and Berry, 1988). The efficiency and effectiveness communication was playing an important in the relationship between the customer and firm that provide the service (Chase & Zhang, 1998). The study showed that the communication and service

timing is very important in order to satisfy the customer. When the service quality that provided by the service provider was not consistent, this situation could cause to negative impact and lead to customer dissatisfy towards the service provider.

Service quality is significant as it creates a good impression on the knowledge, skills, consistency and reliability of the service provided by the firm. The service quality can be measured in two dimensions which are service consistency (Chase, 1985) and service reliability (Parasuraman et al., 1994, p. 201-230). The service consistency and reliability both are very important so that the customer can receive a consistent service and the service can fulfil the customer needs and wants in order to maximize the satisfaction level. Anything that received and experienced by the customer was very important and this also can be the measurement for the service assessment in general (Ismail, Abdullah & Francis, 2009). When the customer expectations are met, this could lead to a positive image of the service provider in the mind sets of the customers (Tuan, 2012).

Besides that, Juran (1980) suggested that the quality need to be measured by two dimensions which is internal and external dimension. Hence, the service quality is very important key point to measure between the customer expectation and the service that provided by the firm (Lewis & Booms, 1983). In the rivalry competition, all the business firms were being to be innovative to generate a better solution to improve the level of the service quality which is expected and desirable by the customers. Therefore, it is very important for the firms to understand the expectations and preference of the target customer.

The perception of the customer on quality can be caused by various type of reasons which are yet to be found out. The marketers or retailers might not referred to the old model for the measurements of the perceived service quality and customer satisfaction because

the knowledge level, wants and needs of the customers are keep changing from time to time. Hence, the environment and knowledge level towards the relationship between service qualities received and customer satisfaction need to be improved and updated all the times (Purgailis & Zaksa, 2012).

There is a significant relationship between service quality that provided and customer's behavior. All of the aspect of service quality act as an important role that lead to customer satisfaction. There were a few researches studied in different countries showed that there is a significant relationship between the service quality and customer satisfaction (Al-Hawari & Ward, 2006; Bei & Chiao, 2006; Malik, Naeem & Arif, 2011; Mosahab, Mahamad & Ramayah, 2010).

Service quality usually known as an important key or fundamental of competitiveness for the firm to continue sustain in the market in order to gain a very close relationship with the customers. Past literatures that have been conducted suggested that the service quality is an important measurement for the satisfaction of the customer (Spreng & Machoy, 1996). The improvement of the service quality could differentiate the firm itself with the competitors within the industry (Gray, 2004).

Service quality plays an important role to the customers when there is a constant among the price and the cost elements (Turban, 2002). It is also one of the very important aspects to satisfy the customer to fulfil the customer expectation. Customer expectation on the receiving service, customer perception, satisfaction and customer behavior are the important aspects to measure the service quality (Sachdev & Verma 2004). Customer satisfaction was the result to indicate the overall service quality that provided by the service providers towards the expectation of the customers (Rust and Oliver, 1994).

2.5.2 Servicescape

According to Bitner (1992), servicescape was defined as the environment provided by the firm and it was considered as one of the services. Servicescape was one of the factors that could influenced the consumer behavior and customer satisfaction. The environment which provided as service can be categories into three dimensions included physical dimensions, social dimensions and ambient dimensions (Bitner, 1992). The whole environment condition can give impact to the customers' satisfaction as it provides the services like the furniture and signboard, decoration of space, ideas for selling and the condition and ambiance of environment. It is clearly stated that the servicescape can be defined as the interaction and communication environment between customers and organizations which provided the services environment to promote the service performance by any tangible products and commodities (Zeithaml, Bitner & Gremler, 2009).

One of the dimensions that indicated in the service environment is physical dimension. It is observable and measurable categories in service environment and it is the easiest dimension to recognized and understood. Physical dimensions can be sound, music, temperature, atmosphere, smell of the fragrance, design and layout of space, furniture and equipment styles (Rosenbaum & Massiah, 2011). The services environment is important to influence customers' satisfaction to remain visit the retail . Comfortable environment could bring the good impression to the customers and the customers willing to stay for long time in such comfortable environment. According to Kotler (1974), creating and making a good services environment could increase the possibility on purchasing decisions. Purchasing decisions showed the level of satisfaction of the customers gained while they shopping.

Secondly, social dimensions also could influence the customers' satisfaction in the services environment. According to Bitner (1992), the nature of social connectivity can define as a part of physical dimensions because the consumer behavior was related to the social rules, principles, and expectations. The relationship between customers and employees were important to fulfil the customers' satisfaction because the quality interaction was one of the psychological needs that required by consumers and this psychological needs can be a competitive advantage for the firm. Furthermore, social environment can influence the customers' experience by three service social elements such as connectivity with employees and participant of customers (Rosenbaum & Massiah, 2001). Therefore, the social dimension was connected the relationship between customers and employees to explain the frequency and preference of customers to visits certain retail always.

The last dimension of servicescape was ambient conditions and this dimension can be proved that could be influenced the customers (Cockrill, Goode & Emberson, 2008; Bitner 1992; Rosenbaum & Massiah, 2011). There were four categories of atmosphere conditions such as design layout, music, lightening, odour which influenced the customers' experience in the services environment. The design and layout can assist the customers to understand and adapt the environment well in order to fulfil their shopping purpose and goals. For an example, the design and layout of Isetan is easy and clear to find out the products location which is convenient for customers to decide where to purchase and shop. The design of the signboard was important especially for the self-service stores because the customers need find out the product themselves in the store.

On the other hand, the element of music was also one of the important part to construct the nice environment. The variables of music such as volume, style, tempo and absence (Sullivan, 2002) should be set to fit with the environment to fulfil the perception of customers either for active or passive activities. It made the customers enjoy while shopping or be patience for waiting in the store with nice music environment. The decoration and installation of lighting was important because the brightness and luminance fluctuation influenced the customers' moods, emotions and the impression of space. The proper way of the arrangement for the lighting setting attracted the attention of customers toward the products.

There are 75 percent of customers' emotions are influenced by smell (Kotler, 2012). The smell influenced the customers' emotions to recall the memories or release the stress. There were many studies indicate that the sense of smell influenced the consumer behavior and pleasant smell enhanced the mood of customers while shopping. Therefore, the ambient conditions of servicescape also influenced the level of customers' satisfaction.

It is very important for the firm in the market to listen and understand the needs and wants of the customer so that the firm can provide the best servicescape which is suitable for the customer in order to increase the customer satisfaction. The better servicescape was able to attract more new customer and retain the existing customer because they were satisfied and enjoyed with the servicescape during shopping. This was not only bring the benefits for the customer but also increased the reputation of the firm itself due to firm able to fulfil and satisfy the customer by providing a better servicescape to differentiate with the other competitors in the industry (Hightower, 2003).

2.5.3 Perceived Value

Customer perceived value was defined as the difference between the evaluation of the costs and the benefits that have of one offering and the perceived by the customer (Kotler & Keller, 2012). Then the scholars have extended the definition by explaining the customer perceived value was the combination of the customer value such as the functional and psychological benefits like the brand reputation with the total customer costs such as the time that has spent, price and other elements cost (Kotler & Keller, 2012).

Customer value also known as the perception and evaluation of the customer on the relationship between the benefits that gain and the sacrifices that have been made (Hutt & Speh, 2007). Refer to the definition stated above, we know the customer perceived value is important because the perception of the customer as the customer compared the value of the item to be buying and price to be paid.

The value that perceived by the existing customer influenced the intention of the customer to repurchase in the future. There is a significant relationship between the customer perceived value and customer satisfaction (Bitner, 1992), the customer make a comparison between the price that has paid and the value of the product and benefit that has perceived. From the customer's view, the value that perceived was equivalent to the price that had paid (Zeithaml, 1988). Hence the firm should improve the efficiency and effectiveness on its performance in order to increase the value that perceived by the customer when purchasing the products or services.

According to Bolton (1999), customer perceived value can be defined as an evaluation process on the money that spent by the customer and the perceived value that

the customer has get from in terms of monetary and non-monetary elements. The firm able to enhance the perceived value for the customer could lead to customer satisfaction. When the customer felt that the value that perceived from the purchasing is worth with the cost that the customer has paid, then the customer is willing to repurchase with the same firm in the future.

The knowledge of the customers was increased for the products or services that provided in the market (Marketing Magazines, 2016). The customers search for more information regarding the product or service that they seek before purchasing such as the information of the product, brand image, price, warranty and others. The customers delighted when they able to get the products or service in the market with the lowest cost that they need to pay. Thus the firm should be attract the customer by providing worth value of products or services to them so that the customer be satisfied after purchasing.

Perceived value is very important for the marketers and retailers to understand the customer behaviors such as shopping attitude and service adoption. Commonly, the perceived value was defined as the value for money. The value perceived can be the cognitive treatment because it's the differences between the benefits that gained and the sacrifices has made. Perceived value was a combination between the positive and negative consequences by using the products (Woodruff & Gardial, 1996). The firm should enhanced the value that provided to the customer so that the positive value could increase the satisfaction of the customer.

According to Patterson and Spreng (1997), customer perceived value can be explained the customer attitude and when the perceived value by the customer is positive, this could directly lead to customer satisfaction. Ryu, Han and Kim (2008) had studied the

relationship between the quick casual restaurant reputation, satisfaction level of the consumer and the value that perceived by the consumer. The researchers had found that there was a significant relationship between the customer perceived value and customer satisfaction.

Lai, Griffin and Babin (2009) also examined the firm reputation was affected by the customer perceived value. This show that there is a relationship between customers perceived value and customer satisfaction. The customer preferred visited to the restaurant with better reputation because the customer believe that the restaurant able to provide better customer perceived value that can lead to high customer satisfaction. In a simple words, when the customer feel that the perceived value is worth with the sacrifices made, this can lead to increase in customer satisfaction. This is important for the firm to seek a better alternative to enhance the value that provided to the customer so that the customer will be satisfied and continue repurchasing with the firm in the future.

2.6 The Relationship between Service Characteristics and Customer Satisfaction

2.6.1 Service Quality and Customer Satisfaction

Customer satisfaction related to the customer's experience on the product or service that have offered by the service provider. According to Cronin and Taylor (1992), service quality is one of the important element of customer satisfaction due to service quality is the end result of the service that provided by a firm. As to the relationship between service quality and customer satisfaction, service quality was important key to influence the

customer satisfaction whether these forms were cumulative or transaction-specific (Oliver, 1993). There were several of past empirical researches studied which support the statement above where the customer satisfaction influenced by service quality (Anderson & Sullivan, 1993; Fornell, Johnson, Anderson, Cha & Bryant 1996; Spreng & Macky 1996).

Regarding to the customer satisfaction and service quality, past researches focused more on the definition and the evaluation of customer satisfaction and service quality. Previous studies evidently proved that there is a significant link between customer satisfaction and service quality (Wilson, Zeithaml, Bitner & Glember, 2008). Although some studies stated that there are others circumstances could influenced the customer satisfaction such as product quality and the price offered, service quality is the important element that directly influenced the customer satisfaction (Zeithaml, Bitner & Glember, 2006). This theory had been supported by the idea that suggested by Wilson et al. (2008) and also had been supported by the concept of customer satisfaction that have been studied by the past researchers.

Regards to the result that have been studied related to customer satisfaction and service quality by Sivadas and Baker-Prewitt (2000) and Sureshchandar, Rajendran and Anantharaman (2002), the researches had found that customer satisfaction and service quality were related and these showed that they are always linked together. The researchers also stated that service quality is playing an important roles to influence the first impression of others might be bad, customer satisfaction might influence by the customer's perception and experiences towards the service providers (Sureshchandar, Rajendran & Anantharaman, 2002).

There were also several of researches had been studied before which related to the relationship between customer satisfaction and service quality, Wang and Hing-Po (2002) focused on the information that include the customer value in their research as well to examined the relationship between customer satisfaction and service quality. Their research implemented SERQUAL model to evaluate the service quality in mobile phone industry in China with certain adaption based on the characteristics of the industry and the local culture in China. The research examined the relationship between service quality, customer value and customer satisfaction. The result of this research had synthesized the customer satisfaction and service quality with customer value. This proved that service quality considered as one of the important elements that customer look into and lead to customer satisfaction.

According to Miles (2013), the study that conducted to examine the competitive strategy on the relationship between the service characteristic and customer satisfaction. From the result can see that customer perception of service quality will be lower for the firms that have using cost leadership strategy compare to differentiation strategy. This is because of customer realize that there is a trade-off between cost and quality. The service provider might cannot offer very high premium quality item with low cost due to the profit margin is low.

2.6.2 Servicescape and Customer Satisfaction

Besides service quality, servicescape also used as the shopping experience measurement. Servicescape is one of the important elements that could influenced

customer satisfaction (Kearney, Coughlan & Kennedy, 2012). According to Hightower (2003), servicescape is one of the important key for marketing mix in grocery retail industry. This was very important to gain the competitive advantage to differentiate with the competitors in terms of servicescape. Hence, improving the servicescape was very important on how to influence the customer's perceptions, feelings, experience and the repurchase behavior. Providing this perceived servicescape experience was an important element to the grocery retailer due to it could lead to customer satisfaction (Healy, Beverland, Oppewal & Sands, 2007).

The design of the shop layout, lightning, music and the arrangements of the products on rack able to help the firm to maximize customer satisfaction in terms of consumption nature. The creation of empathy was very important to sustain the on-going relationship with the customers for the marketers (Healy, Beverland, Oppewal & Sands, 2007). Servicescape was a very important variable that will affect the customer behavior. For instance, there was a research conducted by Yalch and Spangenberg (1988) which examined the musical element. The result show that the younger customer stayed longer in the place with the easy-listening music background in the shopping mall. The older customers stayed longer in the shopping mall when the foreground music was played. This showed that the age of the customer also was very important and related to the servicescape aspects.

The customer preferred listen to the music when shopping because they felt that the service provider had provided a comfortable environment to the customer (Herrington & Capella, 1996). There was a research conducted by Chua, Othman, Boo, Abkarim and Ramachandran (2010) which studied in the food service industry and explained that the

failure of servicescape food service industry could lead to customer dissatisfaction. Servicescape was representative the reputation and image of the firm, this influenced customer perception before the customer interact with the product or service provided.

In order to sustain a good relationship with the customer, it is important to provide good servicescape to the customer. The airport with good reputation not only be effective and efficiency in operation management but also provided helpful and clear signboard to the passengers (Newman, 2007). According to Miles (2013), the perception of servicescape was lower for the firm that adapted cost leadership strategy compare to differentiation strategy. This is because the provide added value service like servicescape was a big cost to the service provider unless it is following a differentiation strategy. However, the customer were willing to pay more to get better or unique services. Therefore, servicescape was an important variable which influenced the level of customer satisfaction.

2.6.3 Perceived Value and Customer Satisfaction

The last important element that influenced the customer satisfaction is customer perceived value. According to Martin-Consuegra, Arturo and Agueda (2007), they had conducted a research that examine the customer nature regarding satisfaction, loyalty and fare that offer by the airlines. From the study's discussion tested the relationship between the airlines fares, customer satisfaction and loyalty. From the result of the research with the supporting evidence suggested the perceived flight fare directly influenced the customer satisfaction and loyalty. Therefore, the price that offered to a product or service is very

important for the customer to measure the product or service that purchase either worth to the price that have been paid.

According to Khraim, Al-Jabaly and Khraim (2014), they have conducted a research to study the impact of the perceived value and customer satisfaction on the perceived price. The study result showed that price influenced the perceived value and satisfaction of the customer. The concept of the previous study that conducted by Dutilh and Graafland (2004) and Bei and Chiao (2001) examined the customer nature that influenced by the customer satisfaction, perceived value and the airlines fare. The price of the airlines is an important key to influence customer satisfaction.

According to Miles (2013), the perception of value was higher when the firm used cost leadership strategy compared to differentiation strategy. This is because of the target customers were looking for a lower price for the same or almost similar item to the other service provider in the industry. Hence, the value that perceived by customer was higher and lead to customer satisfaction when the price was cheaper than others.

In sum, based on the past literatures that have stated above, the service characteristics which consists service quality, servicescape and perceived value are very important for the service provider to be considered which also must be aligned with the business strategy that adapted. The service characteristics could lead to the level of customer satisfaction.

2.7 Summary

This chapter began with the introduction of the retail chain stores in Malaysia. Looking more closely, this chapter focused on the business strategy, customer satisfaction and the service characteristics. It consists of the discussion of the literature review from the previous study on the independent and dependent variables, then followed by the underpinning theory. In the next chapter, the methodology used in this study will be further discussed.



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CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter included the theoretical framework and hypothesis development for this research. This chapter analyzed the methods used to conduct the study. In this chapter discussed the research design, instrument used and statistical methods for the analysis of the data. This research applied a quantitative methodology and the questionnaire was used to accomplish the objectives that have been set. This chapter also determined the population and sample, sampling techniques and data collection procedures.

3.2 Theoretical Framework

This theoretical framework is a conceptual model that explained the relationship between service characteristics that have been determined as imperative for the study area. In this research, there are three important independent variables and one dependent variable as shown in Figure 3.1. The dependent variable in this study is customer satisfaction towards the retail chain store that pursue the cost leadership strategy or differentiation strategy where service quality, servicescape and perceived value are applied as independent variables.

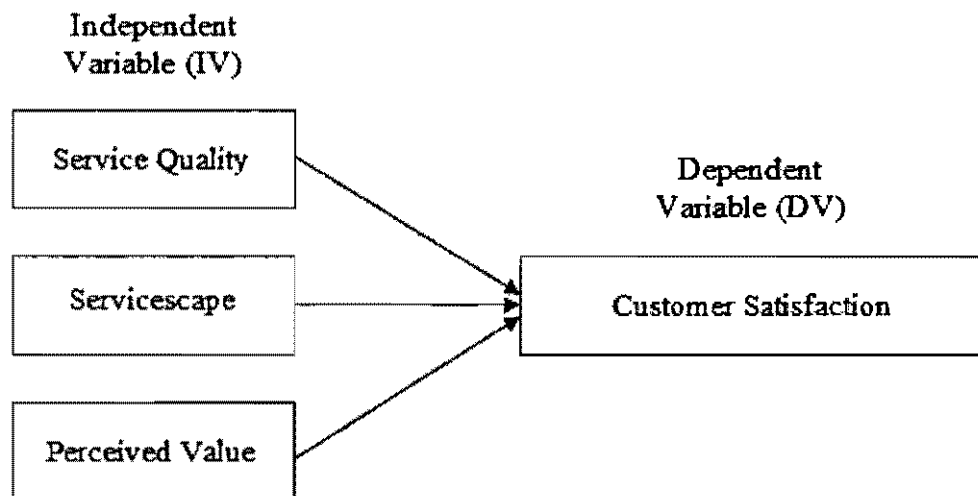


Figure 3.1
Research Framework

3.3 Hypothesis Development

In the past studies, most of the researchers agreed that the service characteristics expectation diverged based on the complication of the service provided (Malhotra & Malhotra, 2013). In sum, this research studied on the customer satisfaction that influenced by the service characteristics that offered by the firm that pursue the cost leadership strategy and differentiation strategy. There are five hypotheses have been developed that related to the objectives of this study.

The past researches had been more focus on the definition and the evaluation of customer satisfaction and service quality. Previous studies evidently proved that there is a significant link between customer satisfaction and service quality (Wilson et al., 2008). The result that have been studied related to customer satisfaction and service quality by

Sivadas and Baker-Prewitt (2000) and Sureshchandar, Rajendran and Anantharaman (2002), the researches had found that customer satisfaction and service quality were related and these showed that they were always linked together. According to Miles (2013), customer perception of service quality was lower for the firms that had used cost leadership strategy compare to differentiation strategy. This is because of customer realized that there was a trade-off between cost and quality because service quality can be costly for the firms. Therefore, it can be hypothesized as follows:

H1- Customer perceptions of service quality will be lower for the firms that pursuing a cost leadership strategy than differentiation strategy.

Servicescape always used as the shopping experience measurement. Servicescape was one of the important elements that influenced customer satisfaction and lead to the customer loyalty and experience (Kearney, Coughlan and Kennedy, 2012). According to Hightower (2003), servicescape was one of the important keys for marketing mix in grocery retail industry. This was very important to gain the competitive advantage to differentiate with the competitors in terms of servicescape. According to Miles (2013), the perception of servicescape was lower for the firm that used cost leadership strategy compared to differentiation strategy. This is because the added value service might cause a big cost to the service provider, however the customers were willing to pay more to get better or unique services. This scenario is thus proved to develop the hypothesis as follows:

H2- Customer perceptions of servicescape will be lower for the firms that pursuing a cost leadership strategy than differentiation strategy.

The next variable is perceived value. According to Khraim, Al-Jabaly and Khraim (2014), the impact of the perceived value and customer satisfaction on the perceived price showed that price influenced the perceived value and satisfaction of the customer. The previous study conducted by Dutilh and Graafland (2004) and Bei and Chiao (2001) had examined that the price of the airlines as perceived value from the customer was an important key to influence the customer satisfaction. According to Miles (2013), the perception of value was higher when the firm used cost leadership strategy than differentiation strategy. This is due to the target customers were looking for a lower price for the same or almost similar item to the other service provider in the industry. Hence, it can be hypothesized as follows:

H3- Customer perceptions of perceived value will be higher for the firms that pursuing a cost leadership strategy than differentiation strategy.

The outcome of the dependent variables which is customer satisfaction is a very important measurement of the customer perception. The higher the level of satisfaction, it means the customer was satisfied with the service characteristics that offered by the firms. This is very important factor to retain the existing customers and attract more new customers to visit to the firms. The service characteristics components which are service quality, servicescape and perceived value and to differ based on the strategy but to be consistent to customer satisfaction. When the customers seek for a low price product, they felt satisfied when they obtained a low price product though the service quality and servicescape are not in the package (Miles, 2013). Meanwhile, for those who seek for good quality and differentiation, these customers felt satisfied when they expected to receive a

good service quality and servicescape by paid a premium price. This condition proved that the customer satisfaction was consistent even the level of the requirement for the components of the service characteristics were different based on the strategy (cost leadership vs differentiation). Therefore, it can be hypothesized as follows:

H4- Customer perceptions of satisfaction will consistent across strategic groups: those following a cost leadership or differentiation strategy.

In this study, there are three independent variables which are service quality, servicescape and perceived value were used to identify whether there is a positive link with customer satisfaction. Service quality consists of overall facility decoration, cleanliness and shopping experience in the firm. Service quality usually known as an important key or fundamental of competitiveness for the firm to continue sustain in the market in order to gain a very close relationship with the customers. Past literatures that have been conducted suggested that the service quality was an important measurement for the satisfaction of the customer (Spreng & Machoy, 1996). While servicescape defined as the interaction and communication environment between customers and organizations which provided the services environment and this lead to customer satisfaction (Zeithaml, Bitner & Gremler, 2009). Furthermore, customer perceived value can be explained from the customer attitude. When the perceived value by the customer is positive, this directly lead to customer satisfaction (Patterson and Spreng (1997). So these three independent variables were playing very important roles to gain the satisfaction of the customers. Hence, this can be hypothesized as follows:

H5- Service quality, servicescape and perceived value have a positive significant relationship with customer satisfaction.

3.4 Research Design

This research was a descriptive research which intend to identify the competitive strategy towards the relationship between service characteristics and customer satisfaction. Self-administrated questionnaires with cover letter were distributed to the respondents. Quantitative approach was used in this study to analyse on how the independent variable influence the dependent variable.

3.5 Unit of Analysis

3.5.1 Population

The target population must be determined in terms of elements, time and geographical boundaries (Sakaran 2013). The target population of this study was the residents in Kuala Lumpur. Additionally, the individuals to answer the questionnaire in this population must shopped in Tesco, Giant, Mydin, Isetan, Sam's Groceria or Ben's Independent Grocer at more than 4 times in a month with income. According to Demographic Statistics First Quarter 2018 Report from Department of Statistics Malaysia (2018) there were 1.79 million population in Kuala Lumpur.

3.5.2 Sample

Sample size can be defined as part of the total population in the area for the study. The sample size taken from the target population of the respondent. The population of this study consists of 1.79 million people in Kuala Lumpur, therefore according to Krejcie and Morgan (1970), with the number population of more than 100,000 people in Kuala Lumpur, the sample size of 384 must be used in this study.

Nowadays, a lot of supermarkets and stores launched in Malaysia especially in Kuala Lumpur. This was because the purchasing power of consumer in Kuala Lumpur was more higher compared to other places and rural areas. Based on the problem statement, the firms had to differentiate themselves among all the competitors by the service provided. The research was very important to study how the firm compete in the rivalry industry in Kuala Lumpur to satisfy their customers with the service characteristics provided with the strategies approaches.

3.6 Measurements of Instruments

In this research, a quantitative approach used by collecting the data through the questionnaire for the target population. The questionnaire was structured with a 7-points of Likert scale which the scale range from 1 was “strongly disagree” to 7 was “strongly agree”. Consequently, a higher scale given by the respondent which mean it indicated more of a given independent variables while a lower scale equated to less of the independent variables.

Table 3.1

Measurements of Variables

Variable	Operational Definition	Total Number of Items	Scale	Sources
Service Quality	Service quality is an important ingredient in quality management, marketing and organizational studies. It is viewed as an abstract and elusive concepts because it involves three unique features: intangibility, heterogeneity and inseparability of production and consumption.	9	Likert Scale 1 - 7	Miles (2013), Parasuraman, Zeithaml and Berry (1994, p. 193-194)
Servicescape	The servicescape is defined as the atmospherics, or physical design and décor elements, on consumers and workers is recognized as important to customer perceptions of quality.	14	Likert Scale 1 - 7	Miles (2013), Parasuraman, Zeithaml and Berry (1994, p. 201-230)
Perceived Value	Value is an abstract concept with meaning that varies according to context. In economics, value is equated with utility or desirability, while in social sciences it is more likely to be understood in the context of human values such as the instrumental and terminal values.	4	Likert Scale 1 - 7	Miles (2013), Bitner (1992)
Satisfaction	Satisfaction is the customer's fulfilment response. It is judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfilment, including levels of under-or over fulfilment.	10	Likert Scale 1 - 7	Miles (2013), Patterson and Spreng (1997)

3.7 Data Collection Procedure

In this study, the primary data collected through questionnaire which had prepared for the target sample. The sample research was the customers of Tesco, Giant, Mydin, Isetan, Sam's Groceria and Ben's Independent Grocer in Kuala Lumpur. There were 480

questionnaires distributed to the customers of Tesco, Giant, Mydin, Isetan, Sam's Groceria and Ben's Independent Grocer in Kuala Lumpur. The administration questionnaires conducted from January 2018 to May 2018. The data collection started with the briefing on the purpose of the research to the respondents for one minute and required them to fill up completely for the questionnaire provided.

3.8 Techniques of Data Analysis

3.8.1 The Sampling Technique

The sampling techniques used in sample selection for this study was a Non-Probability Convenient Sampling Technique. This technique allowed the sample selection from those who were at the location of the data collection. The individuals were then selected conveniently.

3.8.2 Statistical Methods

After the data collected through the questionnaires, the data was keyed in, coded and edited. This research used Statistical Package of Social Science (SPSS) Version 23 to analyze the data. An Independent Sample Test and the Regression Analysis from SPSS were executed to analyze the hypotheses of this study.

3.9 Summary

The chapter outlines the research methodology adopted in this study. In this chapter, the research framework, hypothesis, research design and target population were clearly clarified. Moreover, the measurements of instruments, sampling techniques, data collection procedure and statistical methods also had been explained accordingly. Finally, the chapter serves as a basis for the next chapter which is the results of this research study.



CHAPTER 4

RESULTS AND DISCUSSION

4.1 Introduction

This chapter included the overview of the data collected, goodness of measures and findings of the data analysis. This chapter explained the survey response rate and demographic data of the respondents, which consists of gender, age, race, highest qualification, monthly income and favourite store. While reliability test had been tested to show the goodness of the measures. Then followed by the descriptive analysis, while the Independent Sample Test and Regression Analysis explained the results and hypothesis testing of the study.

4.2 Survey Response Rate

Table 4.1 showed that there was a total of 480 questionnaires have been prepared and distributed to customers of Tesco, Giant, Mydin, Isetan, Sam's Groceria and Ben's Independent Grocer in Kuala Lumpur. The administration questionnaires had been conducted for three months. Finally, there were 405 of questionnaires have been returned by the respondents. Therefore, the response rate is 84.4%.

Table 4.1

Response Rate

Questionnaires	Frequency	Percentage (%)
Total number of questionnaires distributed	480	100.0
Returned questionnaires	405	84.4
Unreturned questionnaires	75	15.6

4.3 Demographic Data

This section discussed the demographic information of the respondents.

4.3.1 Gender of The Respondents

Table 4.2 below showed the gender of respondents' analysis. From the total number of 405 respondents, most of them are female with total number of 278 respondents (68.6%), while male respondents have 127 (31.4%).

Table 4.2

Gender of The Respondents

Gender	Frequency	Percentage (%)
Male	127	31.4
Female	278	68.6
Total	405	100

4.3.2 Age

Table 4.3 explained the age of the respondents. From the collected questionnaires, majority of the respondents were in the age range of 31 to 40 years old with 117 respondents (28.9%). The second largest category based on the questionnaires was 41 to 50 years old category which is 95 respondents (23.5%), then followed by 51 to 60 years old category has 91 respondents (22.5%) and age range below 30 years old has 81 respondents (20.0%). The smallest number of respondents category was only 21 respondents (5.2%) which is 61 years old and above.

Table 4.3
Age of The Respondents

Age	Frequency	Percentage (%)
Below 30	81	20
31-40	117	28.9
41-50	95	23.5
51-60	91	22.5
61 and above	21	5.2
Total	405	100

4.3.3 Race

Table 4.4 showed the race of the respondents. There were four category which are Malay, Chinese, Indian and others. Others races category includes Iban, Kadazan and

Melanau. Result indicates that the highest number of respondents was Malay with 187 respondents (46.2%), Chinese with the frequency of 149 respondents (36.8%), Indian with 59 respondents (14.6%) and others races with 10 respondents (2.5%).

Table 4.4
Race of The Respondents

Race	Frequency	Percentage (%)
Malay	187	46.2
Chinese	149	36.8
Indian	59	14.6
Others	10	2.5
Total	405	100

4.3.4 Highest Qualification

Table 4.5 showed the highest qualification of the respondents. There were 124 respondents' highest qualification was secondary school (30.6%). Then followed by Degree level with 120 respondents (29.6%), 75 respondents (8.5%) from Diploma level, primary school with 41 respondents (10.1%), Master level with 39 respondents (9.6%) and the least respondents was PHD which has 6 respondents (1.5%).

Table 4.5

Highest Qualification of The Respondents

Highest Qualification	Frequency	Percentage (%)
PhD	6	1.5
Master	39	9.6
Degree	120	29.6
Diploma	75	18.5
Secondary School	124	30.6
Primary School	41	10.1
Total	405	100

4.3.5 Monthly Income

Table 4.6 showed the monthly income of the respondents. Majority of the respondents' income are between range of RM4501 to RM6000 category with 103 respondents (25.4%). Then it followed by RM3001 to RM4500 category with 89 respondents (22.0%), RM 6001 to RM7500 category with the frequency of 65 respondents (16.0%), RM 1501 to RM3000 and RM 7501 to RM90000 category with the frequency of 52 respondents each (12.8% each), RM9001 to RM12000 category with 23 respondents (5.7%) and more than RM12000 category with 15 respondents (3.7%). The least number of respondents was those monthly income which is less than RM1500 category with 6 respondents (1.5%).

Table 4.6

Monthly Income of The Respondents

Monthly Income	Frequency	Percentage (%)
Less Than RM1500	6	1.5
RM1,501 - RM3,000	52	12.8
RM3,001 - RM4,500	89	22
RM4,501 - RM6,000	103	25.4
RM6,001 - RM7,500	65	16
RM7,501 - RM9,000	52	12.8
RM9,001 - RM12,000	23	5.7
More Than RM12,000	15	3.7
Total	405	100

4.3.6 Favourite Store

Table 4.7 showed favourite store by the respondents. Most of the respondents preferred Sam's Groceria with 73 respondents (18.0%). It was followed by Tesco with 72 respondents (17.8%). Giant and Isetan has same number of respondents with the frequency of 69 respondents each (17.0% each). Ben's Independent Grocer with 62 respondents (15.3%) while Mydin with 60 respondents (14.8%).

Table 4.7
Favourite Store

Store	Frequency	Percentage (%)
Tesco	72	17.8
Giant	69	17
Mydin	60	14.8
Isetan	69	17
Sam's Groceria	73	18
Ben's Independent Grocer	62	15.3
Total	405	100

4.3.7 Strategy Group

Table 4.8 showed the analysis of strategy group. Store that implemented cost leadership strategy includes Tesco, Giant and Mydin, with 201 respondents (49.6%) while differentiation strategy includes Isetan, Sam's Groceria and Ben's Independent Grocer in which 204 respondents (50.4%) were completed to answer the questionnaire.

Table 4.8
Group of Strategy

Strategy	Frequency	Percentage (%)
Cost Leadership Strategy	201	49.6
Differentiation Strategy	204	50.4
Total	405	100

4.4 Reliability Test

The reliability test of this study was determined by the Cronbach's Alpha Coefficient value. The result showed that the Cronbach's Alpha value for satisfaction of the customer was .935 while Cronbach's Alpha value for service quality was .956. Servicescape scored a Cronbach's alpha value of .973, while variable for perceived value showed a Cronbach's alpha value of .947. Based on the result which all variables' Cronbach's Alpha value were above .70, so there were no items that need to be removed because the value of Cronbach's Alpha confirmed the reliability of the all the items in the questionnaire.

Table 4.9
Reliability Test

Variable	Cronbach's Alpha
Satisfaction	0.935
Service Quality	0.956
Servicescape	0.973
Perceived Value	0.947

4.5 Group Statistics

Table 4.10 showed the means and standard deviation for all the variable with the comparison of cost leadership strategy and differentiation strategy. For service quality, the mean was 3.643 for cost leadership strategy lower than differentiation strategy which was 5.434. So the result explained that the customer felt that service quality that provided by the store that adapted differentiation strategy was higher than the store that adapted cost

leadership strategy. For servicescape, the mean for cost leadership strategy was 3.834 lower than differentiation strategy which was 5.492. The customer felt that the servicescape of the store that used differentiation strategy was better than the store that used cost leadership strategy. While for the perceived value, the mean for cost leadership strategy was 5.969 higher than differentiation strategy which was 2.483. This result showed that the perceived value in customer perception was much higher for the store that adapted cost leadership strategy. For satisfaction, the mean for cost leadership strategy was 5.601 and differentiation strategy was 5.480. The result for satisfaction for both strategies were almost the same which was only difference 0.121.

Table 4.10
Group Statistics

Variable		N	Mean	Std. Deviation	Std. Error Mean
Service Quality	Cost Leadership Strategy	201	3.643	0.914	0.064
	Differentiation Strategy	204	5.434	0.907	0.063
Servicescape	Cost Leadership Strategy	201	3.834	0.916	0.065
	Differentiation Strategy	204	5.492	0.857	0.06
Perceived Value	Cost Leadership Strategy	201	5.969	0.764	0.054
	Differentiation Strategy	204	2.483	0.779	0.055
Satisfaction	Cost Leadership Strategy	201	5.601	0.857	0.06
	Differentiation Strategy	204	5.48	0.957	0.067

4.6 Major Findings

i) Hypothesis 1

H1- Customer perceptions of service quality will be lower for the firms that pursuing a cost leadership strategy than differentiation strategy.

The average customer rating for service quality at cost leadership strategy category that included Tesco, Giant and Mydin is 3.643, while at differentiation strategy category that included Isetan, Sam's Groceria and Ben's Independent Grocer is 5.434. The results show that the service customer rating for cost leadership strategy is lower than differentiation strategy. Table 4.12 showed that there was a significant difference between customer satisfaction and service quality by the stores that pursuing cost leadership strategy and differentiation strategy ($P < 0.01$). Hence, H1 is supported.

ii) Hypothesis 2

H2- Customer perceptions of servicescape will be lower for the firms that pursuing a cost leadership strategy than differentiation strategy.

The average customer rating for servicescape at cost leadership strategy category that included Tesco, Giant and Mydin is 3.834, while at differentiation strategy category that included Isetan, Sam's Groceria and Ben's Independent Grocer is 5.492. The results show that the service customer rating for cost leadership strategy is lower than differentiation strategy. Given the table 4.12 showed that indicated a significant difference between customer satisfaction and servicescape by the stores that pursuing cost leadership strategy and differentiation strategy ($P < 0.01$). Hence, H2 is supported.

iii) Hypothesis 3

H3- Customer perceptions of perceived value will be higher for the firms that pursuing a cost leadership strategy than differentiation strategy.

The average customer rating for perceived value at cost leadership strategy category that included Tesco, Giant and Mydin is 5.969, while at differentiation strategy category that included Isetan, Sam's Groceria and Ben's Independent Grocer is 2.483. The results show that the service customer rating for cost leadership strategy is higher than differentiation strategy. Given the table 4.12 showed that indicated a significant difference between customer satisfaction and perceived value by the stores that pursuing cost leadership strategy and differentiation strategy ($P < 0.01$). Hence, H3 is supported.

iv) Hypothesis 4

H4- Customer perceptions of satisfaction will consistent across strategic groups: those following a cost leadership or differentiation strategy.

The average customer rating for satisfaction at cost leadership strategy category that included Tesco, Giant and Mydin is 5.601, while at differentiation strategy category that included Isetan, Sam's Groceria and Ben's Independent Grocer is 5.480. The results show that the customer satisfaction is almost consistent, which is only 0.121 difference. Based on table 4.12, it indicated that there is no significant difference between customer satisfaction across the strategic groups. ($P > 0.05$). Hence, H4 is supported.

Table 4.11
Levene's Test

		Levene's Test for Equality of Variances	
		F	Sig.
Service Quality	Equal variances assumed	0.15	0.699
	Equal variances not assumed		
Servicescape	Equal variances assumed	0.239	0.625
	Equal variances not assumed		
Perceived Value	Equal variances assumed	0.212	0.646
	Equal variances not assumed		
Satisfaction	Equal variances assumed	2.453	0.118
	Equal variances not assumed		

Table 4.12
T-Test

		t-test for Equality of Means				
		t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Service Quality	Equal variances assumed	-19.79	403	0	-1.791	0.09
	Equal variances not assumed	-19.789	402.777	0	-1.791	0.09
Servicescape	Equal variances assumed	-18.804	403	0	-1.657	0.088
	Equal variances not assumed	-18.794	400.342	0	-1.657	0.088

Table 4.12 (Continued)

		t-test for Equality of Means				
		t	df	Sig. (2- tailed)	Mean Difference	Std. Error Difference
Perceived Value	Equal variances assumed	45.46	403	0	3.486	0.077
	Equal variances not assumed	45.467	402.987	0	3.486	0.077
Satisfaction	Equal variances assumed	1.341	403	0.181	0.121	0.09
	Equal variances not assumed	1.342	399.315	0.18	0.121	0.09

v) Hypothesis 5

H5- Service quality, servicescape and perceived value have significant relationship with customer satisfaction.

In Table 4.13 Model Summary, the result indicated that three independent variables explained 50.4% ($R^2 = 0.504$) of the variance in customer satisfaction. In Table 4.14 Coefficients Table of the three predictors, service quality ($\beta = 0.494$, $P < 0.01$), servicescape ($\beta = 0.355$, $P < 0.01$) and perceived value ($\beta = 0.702$, $P < 0.01$). The results showed that these three independent variables which are service quality, servicescape and perceived value are significantly and relatively related to the customer satisfaction. Hence, H5 is supported.

Table 4.13

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.710a	0.504	0.5	0.643

a. Predictors: (Constant), Perceived Value, Servicescape, Service Quality

b. Dependent Variable: Satisfaction

Table 4.14

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.289	0.214		6.027	0
	Service Quality	0.352	0.082	0.494	4.299	0
	Servicescape	0.266	0.084	0.355	3.184	0.002
	Perceived Value	0.335	0.021	0.702	16.041	0

a. Dependent Variable: Satisfaction

4.7 Summary of the Hypothesis Testing

Table 4.15
Hypothesis Testing

	Hypothesis	Result
H1	Customer perceptions of service quality will be lower for the firms that pursuing a cost leadership strategy than differentiation strategy.	Supported
H2	Customer perceptions of servicescape will be lower for the firms that pursuing a cost leadership strategy than differentiation strategy.	Supported
H3	Customer perceptions of perceived value will be higher for the firms that pursuing a cost leadership strategy than differentiation strategy.	Supported
H4	Customer perceptions of satisfaction will consistent across strategic groups: those following a cost leadership or differentiation strategy.	Supported
H5	Service quality, servicescape and perceived value have a positive significant relationship with customer satisfaction.	Supported

4.8 Summary

The chapter discussed the results that obtained from the statistical analysis stage. The demographic data was analyzed for a clearer picture to study the profile of respondents. The group statistics were used to analyze the means and standard deviations of dependent and independent variables. Based on the results that generated, all the hypothesis were accepted and there was a significant relationship between dependent variable and all the independent variables ($P < 0.01$).

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 Introduction

In this final chapter of the research, the findings of the study was furthered discussed. The summary of the data analysis was provided in the previous chapter and the discussion based on the research objective stated in chapter one. Moreover, the researcher did a comparison between the results obtained from this study with the previous study in the literature review chapter. This final chapter included implication of the study, limitation of the study and recommendation for future research.

5.2 Discussion of Findings

The aim of this research is to study on the competitive strategy towards the link between service characteristics and customer satisfaction in Kuala Lumpur. Correspondingly, service quality, servicescape and perceived value are the independent variables for this study while customer satisfaction is the dependent variable which makes a total of four variables for this research.

This research utilizes Porter's generic strategy which are cost leadership and differentiation strategy to suggest customers. Therefore, five hypotheses were developed and the study attempted to achieve the following specific objectives.

In the following discussion, results of each hypotheses are reviewed and compared with previous literature.

5.2.1 Customer perceptions of service quality is lower for the firms that pursuing a cost leadership strategy than differentiation strategy

Past studies proved that there was a significant link between customer satisfaction and service quality (Wilson et al., 2008). The result on customer satisfaction and service quality by Sivadas and Baker-Prewitt (2000) and Sureshchandar, Rajendran and Anantharaman (2002) found that customer satisfaction and service quality were always linked together. According to Miles (2013), customer perception of service quality was lower for the firms that used cost leadership strategy compared to differentiation strategy. This is because the customer realize that there was a trade-off between cost and quality.

In this study, the customer perception on service quality for differentiation strategy was higher compared with cost leadership strategy. When the customer perceived a better service quality and this made them felt special and appreciate by the firms. Improvement of the service quality such as the store associates provide prompt service, give caring and individual attention are important for the firm to satisfy the customer. This way can add value for the firm and it could gain a competitive advantage over the competitors in the industry.

5.2.2 Customer perceptions of servicescape is lower for the firms that pursuing a cost leadership strategy than differentiation strategy

Servicescape used as the shopping experience measurement. Servicescape was one of the important elements that directly influenced the level of customer satisfaction (Kearney, Coughlan and Kennedy, 2012). This was very important to gain the competitive advantage to differentiate with the competitors in terms of servicescape. According to Miles (2013), the perception of servicescape was lower for the firm that used cost leadership strategy as compared to differentiation strategy. This is because the customer of the store that adapted cost leadership strategy seek for lower price product instead of paid a premium price for better servicescape.

In this study, the customer perception on servicescape for differentiation strategy was higher than cost leadership strategy. This is because the target customers of the firms that adapted differentiation strategy looked for a premium service and better environment when shopping. They were willing to pay at a premium price to enjoy the benefits and services that gained during shopping trip. For instance, Isetan provide attractive signs and displays, pleasant music background and the store always kept clean. This could increase the reputation of the firm itself due to firm able to fulfil and satisfy the customer by providing a better servicescape to differentiate with the other competitors in the industry.

5.2.3 Customer perceptions of perceived value is higher for the firms that pursuing a cost leadership strategy than differentiation strategy

Results from the previous study that conducted by Dutilh and Graafland (2004) and Bei and Chiao (2001) show a strong positive relationship between perceived value and customer satisfaction. The firm adapted cost leadership strategy focused more on offered product at a good value. According to Miles (2013), the perception of value was higher for the firm used cost leadership strategy than differentiation strategy. This was due to the target customers who were looking for a lower price for the same or almost similar item to the other service provider in the industry.

In this study, customer perception on perceived value for cost leadership strategy was much higher than differentiation strategy. The customer preferred visit to the stores with better reputation because the customers believed that the stores able to provide low price merchandise and better value that could lead to high customer satisfaction. By this way the firms could gain a low price image in customer's mind and become a cost leader in the industry. Enhanced the perceived value could satisfied the customer and increased the possibility to repurchase with the firm in the future.

5.2.4 Customer perceptions of satisfaction is consistent across strategic groups: those following a cost leadership or differentiation strategy

The level of customer satisfaction was an important measurement for the firms to identify the performance of the firms. The higher the level of satisfaction, it means the customer was satisfied with the service characteristics that offered by the firms. This is

very important so that can continue to retain the existing customers and attract more new customers to visit to the firms. Even that the components of the service characteristics which are service quality, servicescape and perceived value are different, the strategy that adapted by the firm make it consistent to the customer satisfaction. According to Piccoli and O'Connor (2013), when the expectations of the customers are met, then they satisfied. Otherwise, when the customers' expectation was failed to meet, then they felt dissatisfied.

In this study, customer perceptions of satisfaction was consistent across strategic groups: those following a cost leadership or differentiation strategy. For stores that adapted cost leadership strategy like Tesco, Giant and Mydin, the customers were seek for a low price product, the customers were satisfied to get low price product without a good service quality and servicescape. Otherwise, the customers were satisfied with the firms that used differentiation strategy when the customers expected to receive a good service quality and servicescape. Hence the customer satisfaction were consistent even the components of the service characteristics were different and it differed based on the business strategy.

5.2.5 The relationship between service characteristics (service quality, servicescape and perceived value) and customer satisfaction

The first service characteristics to be discussed was service quality. Service quality was one of the important key to measure the customer expectation towards the firm (Lewis & Booms, 1983). The firms should improve the service quality in order to compete with a huge number of competitors. Thus it was very important to understand the needs and wants of the targeted customer. In this study, the result showed service quality has significant

relationship with customer satisfaction. The service quality provided by the firm such as the knowledge of the stores associates and services provided were very important to satisfy the customers.

The next service characteristics was servicescape. The creation of good servicescape was very important to sustain the on-going relationship with the customers for the marketers (Healy, Beverland, Oppewal & Sands, 2007). In this study, the result showed servicescape has significant relationship with customer satisfaction. The better servicescape was able to attract more new customer and retained the existing customer because they were satisfied and enjoyed during shopping. This is not only bring the benefits for the customer but also can increase the reputation of the firm itself due to firm is able to fulfil and satisfy the customer by providing a better servicescape. This was not only bring the benefits for the customer but also increased the reputation of the firm itself due to firm able to fulfil and satisfy the customer by providing a better servicescape to differentiate with the other competitors in the industry.

The last service characteristics was perceived value. According to Khraim, Al-Jabaly and Khraim (2014), price influenced the perceived value and customer satisfaction. Price that offered is very important to measure the product or service that purchase either worth to the price that have been paid. In this study, the result showed perceived value has significant relationship with customer satisfaction. The customers felt that perceived value was worth with the sacrifices made, this lead to increase in customer satisfaction. This is important for the firm to enhance the value that provided so that the customer satisfied and repurchasing with the firm in the future.

5.3 Implication of Study

This research studied on the competitive strategy towards the link between service characteristics and customer satisfaction in Kuala Lumpur. In general, research implication can be categorized into two which are practical and theoretical implications. In this context, the practical implication of a research could improve or solve a particular issue as relates to area of the study. On the other hand, theoretical implication emphasizes the contribution to an existing theory.

5.3.1 Practical Implication

This study would be valuable for business of retail store. The findings of this study highlight a number of practical implication. Both cost leadership strategy and differentiation strategy were important for the firm to operate the business. Based on the result in chapter four, the average customer rating on customer satisfaction were almost the same for both business strategies. The most important is the service characteristics that provided must be aligned with the business strategy. For those firms adapted differentiation strategy in the business must able to differentiate themselves with the others by focused on the service quality and servicescape aspects. This is because the target customer were looking for premium service and comfortable environment during the shopping trip. While for those firms used cost leadership strategy must able to offers product at a good value compared to the competitors.

The store retailers that adapted either cost leadership strategy or differentiation strategy should understand the service traits that consider crucial for the customer when

visiting the stores. By providing suitable service characteristics could increase the level of customer satisfaction. This research provided relevant information regarding the competitive strategy towards the service characteristics and customers satisfaction. Hence, the retail store can use this research to enhance the business performance by improving the service characteristics which must be aligned with the business strategy.

5.3.2 Theoretical Implication

In line with theoretical contribution, this research is believed further contribute to the theories. This research studied on the competitive strategy towards the link between service characteristics and customer satisfaction. In an organizational service quality model theory, many researchers and scholars concluded that the service characteristics and customer satisfaction were highly interconnected concepts. Strategy literature has emphasized a linkage between firm level strategy and operations is necessary for success in today's market. The findings of this research indicated that service characteristics as independent variables were positively correlated with the customer satisfaction as dependent variable. According to Miles (2013), Porter's generic strategy towards the service characteristics could influenced the customer satisfaction and this statement was supported through this study. The result showed the customer perceptions of service quality and servicescape were lower for the firms that pursuing a cost leadership strategy than differentiation strategy. While customer perceptions of perceived value was higher for the firms that pursuing a cost leadership strategy than differentiation strategy. The results from this study were in line with the discussion that proposed by the past researcher.

5.4 Limitation of Study

Similar to any other research, this study is also had some limitations that confined the generalization of the findings. Firstly, the numbers of retail chain stores that adapted cost leadership strategy is more than those adapted differentiation strategy. Thus it caused the lead time to collect the sufficient number of useful questionnaire become longer and delayed the process of the data collection. Secondly, due to time and cost constraint, the researcher only managed to conduct the research in Kuala Lumpur with selected retail stores for each business strategy despite the fact that there are more than three hundred of retail chain stores throughout Malaysia.

5.5 Recommendation for Further Research

Likewise, firms desired to grow their businesses should continually improving the service characteristics in order to increase the level of customer satisfaction. Further studies are recommended to test the variables on other industry like food and beverages industry within or outside Kuala Lumpur. The future researcher may use customer perception in Kuala Lumpur as a sample to find out more relationship about the competitive strategy towards the service characteristics and customer satisfaction. It would be very important to get a balanced view on the service characteristics by the stores with regards to the composition strategy groups.

In addition, the researcher only conducted the research in Kuala Lumpur. It does not reflect the overall customer perception throughout the whole Malaysia. Hence, it is

suggested that future research should cover in a wider sample to all the states in Malaysia which would strengthen the generalization of the present findings.

5.6 Conclusion

As a conclusion, the research objective in this study was achieved and accomplished through various analysis as discussed earlier. Therefore, there was a clear indication customer perception of service quality and servicescape were lower but higher for perceived value for the firms that pursuing a cost leadership strategy than differentiation strategy. However, the customer perception of satisfaction was consistent across both business strategies. For the relationship between all independent variables were positively correlated with the dependent variable. By all means, this suggested that service quality, servicescape and perceived value were supported as the independent variables had a significant relationship with customer satisfaction as dependent variable. The findings of this research showed that customer perception on service characteristics might be different which differed by the cost leadership strategy and differentiation strategy. The retail chain stores in the same industry adapted very different approaches to satisfy the customers was studied in this research to have a better understanding on the business strategy towards relationship between service characteristics and customer satisfaction.

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UUM
Universiti Utara Malaysia

Appendix A: Questionnaire Survey



**Pusat Pengajian
Pengurusan Perniagaan**
SCHOOL OF BUSINESS MANAGEMENT
Universiti Utara Malaysia

A SURVEY ON SERVICE CHARACTERISTICS AND CUSTOMER SATISFACTION

Dear Respected Respondent,

I am Vincent Loo Jang Yih from Universiti Utara Malaysia, conducting my master research on The Link On Service Characteristics, Customer Satisfaction and Competitive Strategy Among Retail Chain Stores in Kuala Lumpur. I request you to participate in this study by answering the attached questionnaire that will hardly take 10 minutes of your time.

The questionnaire is anonymous, and your response will be used for the academic research purpose only. If you have any questions or concerns about the questionnaire or about participating in this study, you may contact me at vincent_loo@oyagsb.uum.edu.my or 0169328508. You can also request for research findings through same email address.

Your participation in completing the questionnaire is very important and critical to ensure the success of this research.

Thanks for your cooperation.
Sincerely,

Vincent Loo Jang Yih
MSc (Management) Student
School of Business Management
Universiti Utara Malaysia
Sintok, Kedah
06010

Section A: Demographic Profile

The following questions ask for information concerning yourself and your company background. Please answer each question by ticking the appropriate box and fill-up required information.

Please kindly tick (✓) your answers in the appropriate boxes.

1. Gender:

☐

Male

☐

Female

2. Age:

☐

Below 30

☐

31- 40

☐

41 – 50

☐

51 – 60

☐

61 and above

3. Race:

☐

Malay

☐

Chinese

☐

Indian

☐

Other, please specify: _____

4. What is your highest level of education you have completed?

☐

PhD

☐

Master

☐

Degree

☐

Diploma

☐

Secondary school

☐

Primary School

☐

Other, please specify: _____

5. My gross MONTHLY income is

☐

< RM 1500

☐

RM1501-RM3000

☐

RM3001-RM4500

☐

RM4501-RRM6000

☐

RM6001-RM7500

☐

RM7501-RM9000

☐

RM9001-RM12000

☐

> RM12000

6. Which grocery store below have you shopped at more than 4 times in a month? (Please choose ONE only)

Tesco

☐

Giant

☐

Mydin

☐

SECTION B: Service Characteristics and Customer Satisfaction

Please read the following statements and **Circle (0)** the response that closely represents your opinion. The statements are anchored on the following 7 point Likert Scale:

<i>Service Quality</i>	<i>Strongly Disagree ←→ Strongly Agree</i>						
	1	2	3	4	5	6	7
1. I consistently receive the level of service I expect at this store	1	2	3	4	5	6	7
2. This store associates have the skills necessary to help me	1	2	3	4	5	6	7
3. I receive prompt service when I shop at this store	1	2	3	4	5	6	7
4. This store associates give caring and individual attention	1	2	3	4	5	6	7
5. This store associates consistently go out of their way to help me	1	2	3	4	5	6	7
6. This store associates are consistently courteous and pleasing	1	2	3	4	5	6	7
7. I am normally satisfied with the time it takes to check out at this store	1	2	3	4	5	6	7
8. The time I wait in line at this store to check out is similar to my expectations	1	2	3	4	5	6	7
9. I do not have to wait in long lines at this store	1	2	3	4	5	6	7
<i>Servicescape</i>							
10. The store associates have a neat and professional appearance	1	2	3	4	5	6	7
11. Facilities are always kept neat and attractive	1	2	3	4	5	6	7
12. The décor at this store is attractive	1	2	3	4	5	6	7
13. The stores have attractive signs and displays	1	2	3	4	5	6	7
14. The aromas and scents at this store are soothing and pleasant	1	2	3	4	5	6	7
15. The lighting is set at an appropriate level	1	2	3	4	5	6	7
16. I enjoy the background music at this store	1	2	3	4	5	6	7
17. I truly enjoy a shopping trip to this store	1	2	3	4	5	6	7
18. The layout of this store allows me to take any path I like when browsing	1	2	3	4	5	6	7

19. There is ample space between displays to browse comfortably	1	2	3	4	5	6	7
20. All merchandise at this store is easily accessible	1	2	3	4	5	6	7
21. All merchandise is organized at this store	1	2	3	4	5	6	7
22. I will continue to shop at this store for general merchandise	1	2	3	4	5	6	7
23. The store is always clean	1	2	3	4	5	6	7
<i>Perceived Value</i>							
24. The store offers products at a good value	1	2	3	4	5	6	7
25. Given the quality of the merchandise, this store offers low prices	1	2	3	4	5	6	7
26. When I am looking for low price merchandise I shop at this store	1	2	3	4	5	6	7
27. This store offers better value than other general merchandise shops	1	2	3	4	5	6	7
<i>Satisfaction</i>							
28. I am very satisfied with customer services at this store	1	2	3	4	5	6	7
29. I am delighted with the shopping experience at this store	1	2	3	4	5	6	7
30. This store is my first choice of general merchandise shops	1	2	3	4	5	6	7
31. I have good feelings when shopping at this store	1	2	3	4	5	6	7
32. I consider myself a loyal customer of this store	1	2	3	4	5	6	7
33. I intend to remain as its customer to the future	1	2	3	4	5	6	7
34. I purchase more products at this store than I do at Isetan/Sam's Groceria/Ben's Independent Grocer	1	2	3	4	5	6	7
35. I plan on continuing to shop at this store	1	2	3	4	5	6	7
36. I recommend this store to my friends and family	1	2	3	4	5	6	7
37. I go to this store for all my general merchandise needs	1	2	3	4	5	6	7

Thank You

Section A: Demographic Profile

The following questions ask for information concerning yourself and your company background. Please answer each question by ticking the appropriate box and fill-up required information.

Please kindly tick (✓) your answers in the appropriate boxes.

1. Gender:

☐

Male

☐

Female

2. Age:

☐

Below 30

☐

31- 40

☐

41 – 50

☐

51 – 60

☐

61 and above

3. Race:

☐

Malay

☐

Chinese

☐

Indian

☐

Other, please specify: _____

4. What is your highest level of education you have completed?

☐

PhD

☐

Master

☐

Degree

☐

Diploma

☐

Secondary school

☐

Primary School

☐

Other, please specify: _____

5. My gross MONTHLY income is

☐

< RM 1500

☐

RM1501-RM3000

☐

RM3001-RM4500

☐

RM4501-RRM6000

☐

RM6001-RM7500

☐

RM7501-RM9000

☐

RM9001-RM12000

☐

> RM12000

6. Which grocery store below have you shopped at more than 4 times in a month? (Please choose ONE only)

☐

Isetan

☐

Sam's Groceria

☐

Ben's Independent Grocer

SECTION B: Service Characteristics and Customer Satisfaction

Please read the following statements and **Circle (0)** the response that closely represents your opinion. The statements are anchored on the following 7 point Likert Scale:

<i>Service Quality</i>	<i>Strongly Disagree ← → Strongly Agree</i>						
	1	2	3	4	5	6	7
1. I consistently receive the level of service I expect at this store	1	2	3	4	5	6	7
2. This store associates have the skills necessary to help me	1	2	3	4	5	6	7
3. I receive prompt service when I shop at this store	1	2	3	4	5	6	7
4. This store associates give caring and individual attention	1	2	3	4	5	6	7
5. This store associates consistently go out of their way to help me	1	2	3	4	5	6	7
6. This store associates are consistently courteous and pleasing	1	2	3	4	5	6	7
7. I am normally satisfied with the time it takes to check out at this store	1	2	3	4	5	6	7
8. The time I wait in line at this store to check out is similar to my expectations	1	2	3	4	5	6	7
9. I do not have to wait in long lines at this store	1	2	3	4	5	6	7
<i>Servicescape</i>							
10. The store associates have a neat and professional appearance	1	2	3	4	5	6	7
11. Facilities are always kept neat and attractive	1	2	3	4	5	6	7
12. The décor at this store is attractive	1	2	3	4	5	6	7
13. The stores have attractive signs and displays	1	2	3	4	5	6	7
14. The aromas and scents at this store are soothing and pleasant	1	2	3	4	5	6	7
15. The lighting is set at an appropriate level	1	2	3	4	5	6	7
16. I enjoy the background music at this store	1	2	3	4	5	6	7
17. I truly enjoy a shopping trip to this store	1	2	3	4	5	6	7
18. The layout of this store allows me to take any path I like when browsing	1	2	3	4	5	6	7

19. There is ample space between displays to browse comfortably	1	2	3	4	5	6	7
20. All merchandise at this store is easily accessible	1	2	3	4	5	6	7
21. All merchandise is organized at this store	1	2	3	4	5	6	7
22. I will continue to shop at this store for general merchandise	1	2	3	4	5	6	7
23. The store is always clean	1	2	3	4	5	6	7
Perceived Value							
24. The store offers products at a good value	1	2	3	4	5	6	7
25. Given the quality of the merchandise, this store offers low prices	1	2	3	4	5	6	7
26. When I am looking for low price merchandise I shop at this store	1	2	3	4	5	6	7
27. This store offers better value than other general merchandise shops	1	2	3	4	5	6	7
Satisfaction							
28. I am very satisfied with customer services at this store	1	2	3	4	5	6	7
29. I am delighted with the shopping experience at this store	1	2	3	4	5	6	7
30. This store is my first choice of general merchandise shops	1	2	3	4	5	6	7
31. I have good feelings when shopping at this store	1	2	3	4	5	6	7
32. I consider myself a loyal customer of this store	1	2	3	4	5	6	7
33. I intend to remain as its customer to the future	1	2	3	4	5	6	7
34. I purchase more products at this store than I do at Tesco/Giant/Mydin	1	2	3	4	5	6	7
35. I plan on continuing to shop at this store	1	2	3	4	5	6	7
36. I recommend this store to my friends and family	1	2	3	4	5	6	7
37. I go to this store for all my general merchandise needs	1	2	3	4	5	6	7

Thank You

Appendix B: Respondents Demographic Frequency Table

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	127	31.4	31.4	31.4
	Female	278	68.6	68.6	100.0
	Total	405	100.0	100.0	

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 30	81	20.0	20.0	20.0
	31-40	117	28.9	28.9	48.9
	41-50	95	23.5	23.5	72.3
	51-60	91	22.5	22.5	94.8
	61 and above	21	5.2	5.2	100.0
	Total	405	100.0	100.0	

Race

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Malay	187	46.2	46.2	46.2
	Chinese	149	36.8	36.8	83.0
	Indian	59	14.6	14.6	97.5
	Others	10	2.5	2.5	100.0
	Total	405	100.0	100.0	

Highest Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	PhD	6	1.5	1.5	1.5
	Master	39	9.6	9.6	11.1
	Degree	120	29.6	29.6	40.7
	Diploma	75	18.5	18.5	59.3
	Secondary School	124	30.6	30.6	89.9
	Primary School	41	10.1	10.1	100.0
	Total	405	100.0	100.0	

Monthly Income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less Than RM1500	6	1.5	1.5	1.5
	RM1,501 - RM3,000	52	12.8	12.8	14.3
	RM3,001 - RM4,500	89	22.0	22.0	36.3
	RM4,501 - RM6,000	103	25.4	25.4	61.7
	RM6,001 - RM7,500	65	16.0	16.0	77.8
	RM7,501 - RM9,000	52	12.8	12.8	90.6
	RM9,001 - RM12,000	23	5.7	5.7	96.3
	More Than RM12,000	15	3.7	3.7	100.0
	Total	405	100.0	100.0	

Favourite Grocery Store

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Tesco	72	17.8	17.8	17.8
	Giant	69	17.0	17.0	34.8
	Mydin	60	14.8	14.8	49.6
	Isetan	69	17.0	17.0	66.7
	Sam's Groceria	73	18.0	18.0	84.7
	Ben's Independent Grocer	62	15.3	15.3	100.0
	Total	405	100.0	100.0	

Group

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Cost Leadership Strategy	201	49.6	49.6	49.6
	Differentiation Strategy	204	50.4	50.4	100.0
	Total	405	100.0	100.0	

Appendix C: Reliability Results

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.935	.935	10

Dependent Variable: Customer Satisfaction

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.956	.957	9

Independent Variable: Service Quality

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.973	.974	14

Independent Variable: Servicescape

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.947	.949	4

Independent Variable: Perceived Value

Appendix D : Descriptive Statistic of Variables

Group Statistics

	Group	N	Mean	Std. Deviation	Std. Error Mean
ServiceQuality	Cost Leadership Strategy	201	3.6429	.91442	.06450
	Differentiation Strategy	204	5.4336	.90650	.06347
Servicescape	Cost Leadership Strategy	201	3.8344	.91609	.06462
	Differentiation Strategy	204	5.4916	.85693	.06000
PerceivedValue	Cost Leadership Strategy	201	5.9689	.76360	.05386
	Differentiation Strategy	204	2.4828	.77940	.05457
Satisfaction	Cost Leadership Strategy	201	5.6015	.85659	.06042
	Differentiation Strategy	204	5.4804	.95742	.06703



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Appendix E: Independent Samples Test (T-Test)

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Service Quality	Equal variances assumed	.150	.699	-19.790	403	.000	-1.79065	.09048	1.96853	1.61278
	Equal variances not assumed			-19.789	402.777	.000	-1.79065	.09049	1.96854	1.61277
Servicescape	Equal variances assumed	.239	.625	-18.804	403	.000	-1.65720	.08813	1.83045	1.48394
	Equal variances not assumed			-18.794	400.342	.000	-1.65720	.08818	1.83054	1.48385
Perceived Value	Equal variances assumed	.212	.646	45.460	403	.000	3.48606	.07668	3.33531	3.63681
	Equal variances not assumed			45.467	402.987	.000	3.48606	.07667	3.33533	3.63679

Satisfaction	Equal variance s assumed	2.45 3	.11 8	1.341	403	.181	.12110	.09032	-.05645	.29865
	Equal variance s not assumed			1.342	399.31 5	.180	.12110	.09024	-.05631	.29851



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Appendix F : Regression Analysis Result

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.710 ^a	.504	.500	.64334

a. Predictors: (Constant), PerceivedValue, Servicescape, ServiceQuality

b. Dependent Variable: Satisfaction

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.289	.214		6.027	.000
	ServiceQuality	.352	.082	.494	4.299	.000
	Servicescape	.266	.084	.355	3.184	.002
	PerceivedValue	.335	.021	.702	16.041	.000

a. Dependent Variable: Satisfaction